OMFS Update for Inpatient Hospital Services (Effective for discharges occurring on or after January 1, 2008)

1. Data Sources

- a. The Medicare FY08 update to the inpatient prospective payment system was published on August 22, 2007 in the Federal Register (Vol. 72 FR 47130) and is entitled "Medicare Program; Changes to the Hospital Inpatient Prospective Payment Systems and Fiscal Year 2008 Rates; Final Rule" (CMS-1533-FC). A correction to the final rule was published on October 10, 2007, in the Federal Register (Vol. 72 FR 57634), and is entitled "Medicare Program; Changes to the Hospital Inpatient Prospective Payment Systems and Fiscal Year 2008 Rates; Correction" (CMS-1533-CN2). A second correction to the final rule was published on November 6, 2007, in the Federal Register (Vol. 72 FR 62585), and is entitled "Medicare Program; Changes to the Hospital Inpatient Prospective Payment Systems and Fiscal Year 2008 Rates; Correction" (CMS-1533-CN3). A notice to the final rule was published on November 27, 2007 in the Federal Register (Vol. 72, No. 227, FR 66580), entitled, "Medicare Program; Changes to the Hospital Outpatient Prospective Payment System and CY 2008 Payment Rates, the Ambulatory Surgical Center Payment System and CY 2008 Payment Rates, the Hospital Inpatient Prospective Payment System and FY 2008 Payment Rates; and Payments for Graduate Medical Education for Affiliated Teaching Hospitals in Certain Emergency Situations Medicare and Medicaid Programs; Hospital Conditions of Participation; Necessary Provider Designations of Critical Access Hospitals" (CMS-1392-FC, CMS-1533-F2, and CMS-1531-IFC2). These documents are available at http://www.cms.hhs.gov/AcuteInpatientPPS/.
- b. The factors to determine composite rates are available on the CMS website at http://www.cms.hhs.gov/AcuteInpatientPPS/ The public use file used to calculate the composite rates is entitled "Impact file for IPPS FY 2008 Final Rule November 2007 FY 2008 Final Notice Data." The file contains wage data posted on the CMS website as of November 1, 2007.

2. Composite Rate Calculation

a. Update to the standardized amount. L.C. 5307.1(g)(1)(A)(i) provides that the annual inflation adjustment for inpatient hospital facility fees shall be determined solely by the estimated increase in the hospital market basket. Thus, in lieu of using the Medicare FY08 rates to determine the updated OMFS amounts, the estimated increase in the hospital market basket was applied to the FY07 OMFS rates.

b. OMFS rate for operating costs

i. Based on a provision of the Medicare Modernization Act (MMA), all hospitals are paid the same standard rate for operating costs (based on the rate for hospitals located in large urban areas). The

- FY07 rate was \$4,900.03. The estimated increase in the market basket is 3.3%. The FY08 standard rate under the OMFS is \$5,061.73 (\$4,900.03 x 1.033).
- ii. The MMA provides that if a hospital's wage index is less than or equal to 1.0, the labor-related share is .62 of the standard rate. If the wage index is greater than 1.0, the labor-related share is .697. The wage-adjusted standard rate is determined as follows:
 - 1. For discharges occurring on or after January 1, 2008, use post reclass wage, which can be found in the Impact File for IPPS FY 2008 Final Rule:
 - a. If Post Reclass Wage >1.0, wage-adjusted rate =\$5,061.73 x (.697 x Post Reclass Wage + .303)
 - b. If Post Reclass Wage <=1.0, wage-adjusted rate =\$5,061.73 x (.62 x Post Reclass Wage + .38)
- iii. The wage-adjusted operating rate is further adjusted for any additional payments for teaching and serving a disproportionate share of low-income patients.
 - Adjusted operating rate = wage-adjusted standard rate x (1 + DSHOPG + TCHOP)
- c. OMFS rate for capital-related costs
 - i. The estimated increase in the capital market basket is 1.3%. The FY08 standard capital rate is \$430.20 (\$424.68 x 1.013). For discharges occurring on or after January 1, 2008, the standard capital rate will no longer be increased by 3% for hospitals located in large urban areas.
 - ii. The standard capital is adjusted for the capital geographic adjustment factor, teaching, and for serving low-income patients.
 - iii. For discharges occurring on or after January 1, 2008, use post reclass GAF, which can be found in the Impact File for IPPS FY 2008 Final Rule:
 - 1. Adjusted capital rate = \$430.20 x Post Reclass GAF x (1+ DSHCPG + TCHCP).
- d. The standard composite rate is the sum of the OMFS rate for operating costs and the OMFS rate for capital-related costs.
- e. Sole community hospitals (PTYPE = 16) receive the higher of the standard composite rate or a composite rate based on a hospital-specific rate for operating costs plus the OMFS rate for capital-related costs. When the hospital-specific composite rate (HSP rate) is higher than the standard composite rate, the amount is shown in italics.
- 3. Cost-to-charge ratio (CCR) used to determine outlier payments is the sum of the operating and capital cost-to-charge ratios. CCR = OPCCR + CPCCR

- 4. Hospital-specific outlier threshold
 - a. The standard outlier threshold is \$22,185.
 - b. The standard outlier threshold is allocated to operating and capital components and adjusted for geographic location as follows:
 - For discharges occurring on or after January 1, 2008, use post reclass wage, which can be found in the Impact File for IPPS FY 2008 Final Rule:
 - 1. If Post Reclass Wage > 1.0, operating outlier threshold = \$22,185 x OPCCR/CCR x (Post Reclass Wage x .697 + .303)
 - 2. If Post Reclass Wage < =1.0, operating outlier threshold = \$22,185 x OPCCR/CCR x (Post Reclass Wage x .62 +.38)
 - ii. For discharges occurring on or after January 1, 2008, use post reclasses GAF, which can be found in the Impact File for IPPS FY 2008 Final Rule:
 - 1. Capital outlier threshold = \$22,185 x CPCCR/CCR x Post Reclass GAF
 - iii. Hospital-specific outlier threshold = operating outlier threshold + capital outlier threshold
- 5. DRG Relative Weights: Revised DRG relative weights were published on August 22, 2007 in the Federal Register (Vol. 72 FR 47130 at page 47539) as "TABLE 5-LIST OF MEDICARE SEVERITY-DIAGNOSIS RELATED GROUPS (MSDRGS), RELATIVE WEIGHTING FACTORS, AND GEOMETRIC AND ARITHMETIC MEAN LENGTH OF STAY". A correction to Table 5 was published on October 10, 2007, in the Federal Register (Vol. 72 FR 57634 at page 57727), and is entitled "Medicare Program; Changes to the Hospital Inpatient Prospective Payment Systems and Fiscal Year 2008 Rates; Correction" (CMS-1533-CN2). Section 9789.24. Diagnostic Related Groups, Relative Weights, Geometric Mean Length of Stay is revised to reflect these changes effective with discharges occurring on or after January 1, 2008.
- 6. Maximum Allowable Fees: To determine the standard payment rate, the hospital-specific composite rate would be multiplied by the DRG relative weight and 1.20 multiplier. Additional payments will be made for high cost outlier cases and for certain pass-through costs in accordance with the regulations.
- 7. Cost Outlier Cases: Section 9789.22(e)(5) is amended to conform to Medicare's transition to the Medicare Severity-Diagnosis Related Groups (MS-DRGs). For discharges occurring on or after January 1, 2008, an admission for DRGs 496, 497, 498, 519, 520, 531, 532, and 546 are replaced with DRGs 453, 454, 455, 459, 460, 471, 472, 473, 028, 029, 030, 456, 457, and 458.
- 8. Implantable Medical Devices, Hardware, and Instrumentation: Section 9789.22(f) is amended to conform to Medicare's transition to MS-DRGs.

- Implantable medical devices, hardware, and instrumentation for DRGs 496, 497, 498, 519, 520, 531, 532, and 546 are replaced with DRGs 453, 454, 455, 459, 460, 471, 472, 473, 028, 029, 030, 456, 457, and 458.
- 9. Acute Care Transfers: Section 9789.22(i)(2)(A) is amended to conform to Medicare's transition to MS-DRGs and to updates to the qualifying DRGs when an acute care patient is discharged to a post-acute care provider, which were published on August 22, 2007 in the Federal Register (Vol. 72 FR 47130) and is entitled "Medicare Program; Changes to the Hospital Inpatient Prospective Payment Systems and Fiscal Year 2008 Rates; Final Rule" (CMS-1533-FC). A correction to Table 5 was published on October 10, 2007, in the Federal Register (Vol. 72 FR 57634), and is entitled "Medicare Program; Changes to the Hospital Inpatient Prospective Payment Systems and Fiscal Year 2008 Rates; Correction" (CMS-1533-CN2). These documents are available at http://www.cms.hhs.gov/AcuteInpatientPPS/. Table 5 lists how the transfer policy will apply when an acute care patient in a particular DRG is discharged to a post-acute care provider.
- 10. Section 9789.22(i)(2)(B) is amended to conform to Medicare's transition to MS-DRGs and updates to DRGs subject to payment under this subsection which are indicated with a "yes", in the "FY08 Final Rule Special Pay DRG" column, listed in Table 5, which was published on August 22, 2007 in the Federal Register (Vol. 72 FR 47130) and is entitled "Medicare Program; Changes to the Hospital Inpatient Prospective Payment Systems and Fiscal Year 2008 Rates; Final Rule" (CMS-1533-FC). A correction to Table 5 was published on October 10, 2007, in the Federal Register (Vol. 72 FR 57634), and is entitled "Medicare Program; Changes to the Hospital Inpatient Prospective Payment Systems and Fiscal Year 2008 Rates; Correction" (CMS-1533-CN2). These documents are available at http://www.cms.hhs.gov/AcuteInpatientPPS/.
- 11. Section 9789.22 is further amended by Order of the Administrative Director as described in paragraph 12, below. In particular, the subsections which reference the Federal Register or Code of Federal Regulations are amended to incorporate by reference the Federal Register, August 22, 2007, (Vol. 72 FR 47130) and is entitled "Medicare Program; Changes to the Hospital Inpatient Prospective Payment Systems and Fiscal Year 2008 Rates; Final Rule" (CMS-1533-FC), the correction published on October 10, 2007, in the Federal Register (Vol. 72 FR 57634), and is entitled "Medicare Program; Changes to the Hospital Inpatient Prospective Payment Systems and Fiscal Year 2008 Rates; Correction" (CMS-1533-CN2), the correction to the final rule was published on November 6, 2007, in the Federal Register (Vol. 72 FR 62585), and is entitled "Medicare Program; Changes to the Hospital Inpatient Prospective Payment Systems and Fiscal Year 2008 Rates; Correction" (CMS-1533-CN3), and the notice to the final rule published on November 27, 2007 in the Federal Register (Vol. 72, No. 227, FR 66580), entitled, "Medicare Program; Changes to the Hospital Outpatient Prospective Payment System and CY 2008 Payment Rates, the Ambulatory

Surgical Center Payment System and CY 2008 Payment Rates, the Hospital Inpatient Prospective Payment System and FY 2008 Payment Rates; and Payments for Graduate Medical Education for Affiliated Teaching Hospitals in Certain Emergency Situations Medicare and Medicaid Programs; Hospital Conditions of Participation; Necessary Provider Designations of Critical Access Hospitals" (CMS-1392-FC, CMS-1533-F2, and CMS-1531-IFC2), to be applied to discharges occurring on or after January 1, 2008.

12. Pursuant to Labor Code section 5307.1(g)(2), the Administrative Director of the Division of Workers' Compensation orders that to the extent references to the Federal Register or Code of Federal Regulations are made in any sections starting from section 9789.20 through 9789.24 of Title 8 of the California Code of Regulations, said section is hereby amended to incorporate by reference the applicable Federal Register final rule (including correction notices and revisions) and Federal Regulations in effect as of the date the Order becomes effective, to be applied to discharges occurring on or after January 1, 2008.